

Practical Lessons from Large-Scale Organization Transformations

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TALKING POINTS

1. Thank you for the invitation to speak on such an important topic. You have my resume so I won't dwell on my background that is relevant for this conversation. I will be brief and welcome the chance for ongoing dialogue today or subsequently.

2. Let me start with a definition of how McKinsey defines transformation: Transformation is a conscious and sustainable transition to a higher level of performance based on a fundamental shift in underlying capabilities and cultural instincts. In our view there has never been a more important time for transformation in government generally and California specifically. With substantial deficits and debt, increasing obligations in healthcare, needs to reinvest in infrastructure and education and difficulty in raising new revenues, all levels of government around the world face a daunting challenge: How to get more for less.

Productivity lies at the heart of the opportunity for transforming government performance. Although many people think that improving productivity is synonymous with cost cutting and layoffs, this misconstrues its real meaning: the amount and quality of the goods and services that can be generated with a given set of inputs.

The potential payoff from improving government performance is huge. Private sector productivity – the amount of goods or services produced per unit of input – has grown recently at roughly 3 percent per year. Government productivity is harder to measure, but estimates place its recent growth at less than 1 percent.

Applied to California's budget, this productivity gap comes to at least \$2 billion a year.

In other words, if California's government had improved its productivity at the same compounded rate as the private sector over the last 5 years, there would be no budget deficit today.

3. The CPR is a once in a generation opportunity to catalyze a transformation of California's government and dramatically improve the state's productivity. It is also an opportunity to set in place a continuous improvement mindset. Unfortunately, much of the conversation about CPR has focused on its long list of specific ideas and controversial reorganization. To be successful, as suggested in the editorial by Sean Randolph and Russ Hancock I sent in advance, there are four keys to ensure the CPR is successful which will tie to my observations about performance transformations:

- ¶ Be strategic: set aggressive goals, not detailed tactics
- ¶ Target productivity: as I mentioned above, it is the key metric
- ¶ Establish a clear means for implementation: not one time but continuous
- ¶ Measure progress and report it publicly

4. These suggestions are very consistent with McKinsey's experience in large scale performance transformations in the private and public sectors. As part of a large research effort, my firm has spent the last 18 months studying our hundreds of client engagements on transformation, interviewed over a thousand managers involved in such transformations as well as over 50 academics. In our view there are 6 keys to successful transformations. This is not to say transformation is easy. Quite the opposite.

In successful transformations . . .

1. Rigor in program architecture	. . . the architecture is articulated at three consistent levels: an overall change agenda, a set of core performance themes, and an array of individual initiatives
2. Performance and health	. . . both performance and health are lifted to new levels in an integrated way rather than traded off against each other as conflicting goals

3. Aspirations and pace	. . . a powerful, long-term performance vision is rolled back to a desired “mid-term future state” that is more granular and actionable, yet also stretching in terms of both the scale and the pace of change
4. Embedding change	. . . from an early state, highly visible manifestations of change in the operating model lock in higher performance, create energy, facilitate learning, and foster yet more change
5. Making change personal	. . . mindsets and behaviors are changed through a holistic approach that addresses employees’ understanding and commitment; the systems and structures that guide their actions; their skills and competencies; and their need for influential role models
6. Transforming leadership	. . . leadership is a resource that is not only tapped to propel the change, but can also be systematically increased in terms of both volume and depth

5. Many if not most transformations fail to meet their objectives. Typically organizational inertia is the key underlying factor in the failure to improve performance. In our experience over 70 percent of change failures are due to organizational issues, particularly employee resistance to change or management behavior that is not supportive. These organizational issues dwarf all other obstacles including budget adequacy.

These barriers come in many specific forms. For instance, people may have trouble seeing the link between the changes sought and outcomes that the organization values. Informal everyday working methods may conflict with espoused values. The change champions may lose interest and move to the “next” change program. And leaders may lack the knowledge and abilities they need, or they may fail to role-model, train, or reinforce the desired behaviors.

When the transformation team itself has problems, you may hear complaints like these: “This change makes my life harder, with no guarantees.” “These things usually fail, and who wants to be associated with a failure?” “I am not going to get the support I need.” “My boss thinks this is dumb and a distraction.” “I don’t trust the other people on this team.” “My friends think this is dumb.” “This is just the

flavor of the month.” “I don’t have much to contribute and I shouldn’t be on this team.”

6. Frankly, I worry that CPR is headed to hearing many of these phrases frequently over the next while unless we insist on heading the lessons of why transformations succeed and fail. Productivity improvement in the state is not just an opportunity, it is a necessity and CPR should be the catalyst. Unfortunately, this will be hard work and it’s just begun. Transformation is not easy but it can be done. In particular, if I could ask to reinforce only three things to help ensure impact it would be:

- ¶ Set up a major change program and a organization structure to manage it
- ¶ Set aggressive, clear and publicly transparent goals: long term and quarter by quarter
- ¶ Insist on world class leadership and oversight to make it happen.

7. The potential is there, I sincerely wish you the best in helping ensure it is realized. I would be happy to answer any questions.